

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
POOLED LOAN FINANCING PROGRAM – SERIES B**

EXECUTIVE SUMMARY

Applicant:	Western University of Health Sciences Pomona, California Los Angeles County	Bond Par Amount:	\$4,240,000
		Loan Term:	30 years
		Date Requested:	April 27, 2000
		Resolution Number:	178
Facility Type:	Private University		
Accreditation:	Western Association of Schools and Colleges		
Project: Bond proceeds will be used to renovate two existing Western University of Health Sciences (the University) campus buildings and to renovate an existing pedestrian walkway.			
Type of Issue:	Public Offering, Fixed interest rate		
Credit Enhancement:	None		
Expected Pool Rating:	Baa2 (Moody's)		
Senior Underwriter:	Prager, McCarthy & Sealy LLC		
Bond Counsel:	Arter & Hadden LLP		
Financial Overview: The University has posted positive net operating income the last three years, but profitability each year has declined largely due to increased, faculty, staffing and administrative costs related to the development of the new pharmacy program and enhancement of the information technology department. The University's strong competitive position and robust demand is a positive credit factor for enhancing overall revenues. This, combined with management's new focus on bolstering fundraising and other alternative sources of revenue, while maintaining its expense flexibility, are expected to result in continuing positive financial results. Proforma debt service coverage is good.			
Sources of Revenue (\$000) - FY 6/30/99:			
(Unrestricted Funds)	Amount	Percent	
Tuition and fees, net	\$27,270	86.6%	
Sales and services of educational activities	1,529	4.9%	
Private gifts	990	3.1%	
Sales and services of auxiliary enterprises	959	3.0%	
Application fees and other operating revenues	749	2.4%	
Total unrestricted revenue	<u>\$31,497</u>	<u>100.0%</u>	
Sources of Funds:		Uses of Funds:	
Par amount of CEFA bonds	\$4,240,000	Construction/renovation	\$3,720,000
Original issue discount	(84,800)	Debt reserve fund	332,528
		Financing costs	<u>102,672</u>
Total Sources:	<u>\$4,155,200</u>	Total Uses:	<u>\$4,155,200</u>
Staff Recommendation: Staff recommends the Authority approve a resolution for an amount not to exceed \$4,240,000 for the Western University of Health Sciences, subject to the Series B Pool being rated at least "Baa3" by a nationally recognized rating agency, certain bond covenants as described in the "Financing Structure" section, and meeting the standard bond issuance provisions for Baa rated debt.			

STAFF SUMMARY AND RECOMMENDATION
Western University of Health Sciences

April 27, 2000
Resolution Number: 178

I. PURPOSE OF FINANCING.

In response to increased student enrollment, the Western University of Health Sciences (the University) plans to renovate two existing buildings and an exiting pedestrian walkway on campus.

Construction/Renovation Projects \$3,720,000

The University plans to renovate an existing Health Sciences library and another building currently used for instructional activities, which may eventually house a veterinary medicine program. Bond proceeds will also finance the renovation of an existing pedestrian walkway on campus. Preliminary construction, including architectural designs and asbestos removal, has already been completed. The estimated completion date for the project is March 2001.

Debt Reserve Fund \$332,528

Financing Costs \$102,672

Cost of Issuance61,395

Underwriter Discount33,877

Contingency7,400

***TOTAL USES OF FUNDS* \$4,155,200**

Financing Structure:

- Public Offering.
- Fixed Rate.
- 30 year maturity.
- General Obligation and Gross Revenue Pledge.
- Deed of Trust to secure property.
- Debt Service Reserve Fund.
- Loan Agreement to include language requiring the University to obtain credit enhancement or refinance out of the CEFA Pool if the University's rating falls below Baa3 and causes the Series B Pool rating to fall below Baa3.
- Financial integrity covenants.

II. FINANCIAL STATEMENTS AND ANALYSIS

Western University of Health Sciences Statement of Activities (Unrestricted Funds)

	Period Ending June 30,		
	1999	1998	1997
SUPPORT AND REVENUES:			
Tuition and fees, net	\$ 27,270,362	\$ 23,874,926	\$ 20,085,069
Application fees	143,310	169,515	184,750
Private gifts	990,296	1,302,478	1,806,028
Sales and services of auxiliary enterprises	958,772	912,422	1,040,619
Sales and services of educational activities	1,529,096	1,480,678	1,188,103
Other operating revenues	604,669	475,291	354,150
Total operating revenues	31,496,505	28,215,310	24,658,719
EXPENSES:			
Research	152,999	149,455	13,054
Instruction	11,188,853	10,129,254	7,949,560
Academic support	2,817,972	2,402,641	2,564,794
Student services	1,919,572	1,554,834	1,365,540
Institutional support	8,388,503	6,631,296	5,652,633
Operation and maintenance of plant	2,166,928	1,948,044	1,406,711
Scholarships and fellowships	206,627	194,362	128,309
Auxiliary enterprises	981,731	875,074	980,542
Depreciation	1,650,022	1,446,123	1,261,972
Interest on indebtedness	1,300,252	1,242,279	1,280,167
Amortization of bond issuance costs	81,413	77,005	76,601
Development and fundraising	645,322	494,602	64,132
Student loan matching requirement	92,231	105,556	61,414
Total expenses	31,592,425	27,250,525	22,805,429
Excess of revenue over expenses	(95,920)	964,785	1,853,290
Net assets released from restrictions	841,054	462,932	348,874
Change in net assets from operations	745,134	1,427,717	2,202,164
Non-operating activities, net	517,774	888,027	795,160
Other adjustments	(46,220)	-	443,103
Increase in net assets	1,216,688	2,315,744	3,440,427
Beginning unrestricted net assets*	11,951,880	9,126,103	5,685,676
Ending unrestricted net assets	\$ 13,168,568	\$ 11,441,847	\$ 9,126,103

*During 1999, \$510,033 in certain temporarily restricted net assets were reclassified to unrestricted net assets to reflect unrestricted charitable gift annuities.

Western University of Health Sciences
Statement of Financial Position

	As of June 30,		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Assets			
Current Assets:			
Cash and equivalents	\$ 14,884,670	\$ 11,873,646	\$ 10,427,279
Accounts receivable	2,536,943	3,242,138	2,590,494
Notes receivable	864,782	772,577	760,781
Inventories	783,981	784,206	615,676
Prepaid expenses and other	1,147,010	676,462	317,428
Total current assets	<u>20,217,386</u>	<u>17,349,029</u>	<u>14,711,658</u>
Pledges receivable	694,087	807,472	591,134
Long-term assets	9,258,145	8,514,369	8,426,710
Long-term investments	5,824,189	6,339,073	6,533,905
Deposits with trustee	5,849,632	8,574,801	2,507,066
Property, plant, and equipment, net	31,768,191	28,630,213	27,430,843
Total assets	<u>\$ 73,611,630</u>	<u>\$ 70,214,957</u>	<u>\$ 60,201,316</u>
Liabilities and net assets			
Current Liabilities:			
Accounts payable and accrued liabilities	\$ 3,337,887	\$ 2,368,709	\$ 2,239,815
Lines of credit	3,175,000	3,475,000	1,565,000
Deposits for agency funds	202,864	189,168	185,095
Deferred revenue	5,297,380	4,303,576	6,228,267
Notes payable	46,743	128,188	122,337
CEFA bonds	1,108,758	1,068,758	1,028,060
Capital lease obligations	172,738	192,261	206,159
Liability on annuity and unitrust agreements	230,083	257,738	229,411
Total current liabilities	<u>13,571,453</u>	<u>11,983,398</u>	<u>11,804,144</u>
Long-Term Liabilities			
Deferred revenue	1,378,179	1,453,672	1,156,052
Notes payable	253,187	183,706	296,770
CEFA bonds	29,065,000	29,740,000	23,375,000
Capital lease obligations	276,844	278,389	382,179
Federal student loan funds	7,466,093	6,739,489	6,237,003
Liability on annuity and unitrust agreements	3,072,374	2,894,404	1,421,427
Total long-term liabilities	<u>41,511,677</u>	<u>41,289,660</u>	<u>32,868,431</u>
Net Assets:			
Unrestricted	13,168,568	11,951,880	9,126,103
Temporarily restricted	3,267,892	3,177,783	4,626,600
Permanently restricted	2,092,040	1,812,236	1,776,038
Total Net Assets	<u>18,528,500</u>	<u>16,941,899</u>	<u>15,528,741</u>
Total liabilities and net assets	<u>\$ 73,611,630</u>	<u>\$ 70,214,957</u>	<u>\$ 60,201,316</u>

Financial Ratios:

	Proforma			
	<u>FYE June 30, 1999</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Debt Service Coverage	1.53	1.74	2.13	2.57
Expendable net assets/debt	0.48	0.53	0.48	0.54
Expendable net assets/operations		0.52	0.56	0.60
Margin		3.65%	7.77%	13.26%

Financial Discussion:

The University has posted positive net operating income the last three years, but profitability each year has declined largely due to increased faculty, staffing and administrative costs related to the development of the new pharmacy program and the enhancement of the information technology department.

The University posted a \$4.4 million positive "change in net assets from operations" from 1997 through 1999, however, profitability from year to year declined from \$3.44 million in 1997 to \$1.2 million in 1999. According to management, this decline is largely related to the University's development of the new pharmacy program. Both revenues and expenses increased as the University expanded its pharmacy program created in 1996, but expenses increased a total of \$8.8 million compared to revenues which increased at a lesser \$6.8 million, as could be expected with start-up operations. Management notes that the higher expenses occurred in the areas of instruction and institutional support as faculty and administrative staff were added each year to support additional classes. Moreover, the University incurred additional staffing, equipment, and supplies costs given recent enhancements to its information technology department.

For the current fiscal year, however, management notes that it has a full contingent of staff necessary to support the pharmacy program and, accordingly, does not anticipate any material expense increases for fiscal 2000. Technology enhancement expenses are anticipated to remain stable. Moreover, the University enjoys significant expense flexibility resulting from its predominant use of non-tenured, adjunct faculty, which should help control expenses in the future. The University, for fiscal year 2000, anticipates a \$1.3 million change in net assets from operations, which would be a \$105,000 improvement over 1999.

The University's strong competitive position and robust demand is a positive credit factor for enhancing overall revenues. This, combined with management's new focus on bolstering fundraising and other alternative sources of revenue, while maintaining its expense flexibility, are expected to result in continuing positive financial results. Proforma debt service coverage is good.

The University enjoys a strong student interest given national employment trends favoring medical generalists and primary care physicians. Moreover, good geographic student diversity reflects the relative absence of osteopathic medical schools in the Far West, with nearly 25% of the University's students from outside California. Accordingly, the Doctor of Osteopathy program, which generates over 50% of net tuition revenues, continues to receive more than 16 times more applications than accepted students.

Demand, in general, is particularly strong with total enrollment growing an impressive 14% per year since 1997. At the same time, tuition fee increases averaged 5% per year, resulting in a \$7.2 million increase in tuition revenue from 1997 through 1999.

Private gifts, an important source of revenue, have declined 45% over the past three years. To turn around this trend, the University has hired a team of philanthropic management consultants to assist in the preparation of a capital campaign scheduled to commence in 2002. The

consultants are presently conducting a development program review as a step to increased fund raising activity. Additionally, the University anticipates becoming a financial aid lender to supplement revenues. It also is in the process of developing a fee based internet service, via a new web site, which will provide students supplemental licensing exam curriculum manuals and materials.

Should this financing be approved, the University's long term debt will be over \$34 million and expendable net assets compared to debt will be a minimal 48%. However, the proforma debt coverage ratio of 1.53 suggests the University can manage this debt and meet its obligations given its current operations.

III. STUDENTS, COLLEGE COSTS, AND FACULTY STATISTICS.

Applications and New Enrollments

Doctor of Osteopathic Medicine Program (DO)

Year of Matriculation	Total Applications	Total Acceptances	Matriculants
1995/96	4007	249	176
1996/97	4294	264	176
1997/98	4369	271	182
1998/99	3610	287	181
1999/00	2793	290	169

Physician Assistant Certificate Program (PA)

Year of Matriculation	Total Applications	Total Acceptances	Matriculants
1995/96	500	67	58
1996/97	740	112	88
1997/98	663	117	98
1998/99	754	110	98
1999/00	710	114	98

Master of Physical Therapy Program

Year of Matriculation	Total Applications	Total Acceptances	Matriculants
1995/96	530	95	52
1996/97	354	60	54
1997/98	273	59	54
1998/99	217	61	53
1999/00	125	68	54

Master of Science in Health Professions Education

Year of Matriculation	Total Applications	Total Acceptances	Matriculants
1995/96	5	5	5
1996/97	9	9	9
1997/98	12	9	7
1998/99	12	11	11
1999/00	8	6	5

Doctor of Pharmacy Degree Program

(Program started in 1996/1997)

Year of Matriculation	Total Applications	Total Acceptances	Matriculants
1996/97	406	82	68
1997/98	395	133	98
1998/99	466	167	99
1999/00	420	160	110

Master of Science in Nursing Program/Family Nurse Practitioner

(Program started in 1996/1997)

Year of Matriculation	Total Applications	Total Acceptances	Matriculants
1996/97	13	12	9
1997/98	28	24	21
1998/99	15	12	11
1999/00	32	19	19

Enrollment and Degrees

Student Enrollment

Year	DO Program	PA Program	MPT Program	MSHPE Program	Pharmacy Program	MSN/FNP Program	Total
1993/94	574	89	148	45	0	0	856
1994/95	636	106	155	40	0	0	937
1995/96	679	114	161	40	0	0	994
1996/97	684	146	162	39	68	9	1108
1997/98	687	186	157	30	166	30	1256
1998/99	688	226	157	32	270	35	1408
1999/00	695	196	158	33	377	28	1487

Degrees Granted

Year	DO Program	PA Program	MPT Program	MSHPE Program	Pharmacy Program	MSN/FNP Program	Total
1993/94	112	39	47	7	0	0	205
1994/95	138	48	47	5	0	0	238
1995/96	152	54	52	8	0	0	266
1996/97	175	57	51	11	0	0	294
1997/98	168	88	50	3	0	0	309
1998/99	162	96	52	8	4	26	348

Tuition and Fees

Year	DO Program	PA Program	MPT Program	MSHPE Program	Pharmacy Program	MSN/FNP Program
1995/96	\$20,635	\$9,820	\$19,500	\$2,050	N/A	N/A
1996/97	\$21,775	\$10,365	\$20,575	\$2,075	\$19,975	\$15,875
1997/98	\$22,905	\$12,875	\$21,640	\$2,075	\$21,005	\$16,695
1998/99	\$24,045	\$12,875	\$22,715	\$3,400	\$22,045	\$17,525
1999/00	\$25,195	\$13,485	\$23,795	\$3,400	\$23,095	*

*Changed to \$350-\$400 per credit hour in 1999/00.

Faculty

The following table reflects the number of full-time and part-time faculty appointments for the current and past four academic years, as well as, the number of full-time faculty with tenure. The data is for instructional faculty only and excludes certain part-time instructors, guest lecturers, deans, associate deans, and administrators who may hold faculty rank.

Faculty Positions

Academic Year	Full Time	Part Time	FTE Total	Tenured
1995/96	41	18	50	21
1996/97	42	16	50	21
1997/98	49	18	53	20
1998/99	50	24	67	20
1999/00	52	25	68	21

Of the 52 full-time faculty in 99/00, 13 are professors, 9 are associate professors, and 25 are assistant professors. Approximately 76% of the full-time faculty have obtained a Ph.D. or other terminal degree and 27% of the faculty are tenured. The current student/faculty ratio is 13 to 1.

IV. BACKGROUND.

Western University of Health Sciences:

Western University of Health Sciences (the "University") is a non-profit, accredited, independent institution of higher learning and an academic health center, whose main campus is located on 20 acres in Pomona, California. Founded in 1977 as the College of Osteopathic Medicine of the Pacific, a four-year medical school educating osteopathic physicians, the institution has expanded its mission by offering primary care-focused educational programs in the allied health professions, pharmacy and advanced nursing. In 1996, the institution officially became a university and changed its name to Western University of Health Sciences.

More than 1,450 students are enrolled in four colleges: College of Osteopathic Medicine of the Pacific; College of Allied Health Professions; College of Graduate Nursing; and College of Pharmacy. Degrees and certificates offered are: Doctor of Osteopathic Medicine, Doctor of Pharmacy, Master of Science in Health Professions Education, Master of Physical Therapy, Master of Science in Nursing/Family Nurse Practitioner, Master of Science in Nursing, a Post-Masters Family Nurse Practitioner certificate, and a Physician Assistant certificate. Beginning with the entering class of 2000, the Physician Assistant program will change to a Master of Science in Physician Assistant Studies.

Administration:

The University is governed by a self-perpetuating Board of Trustees (the "Board"). The Board is presently composed of four officers elected annually, five members-at-large elected for two-year terms, the President of the University serving as an *ex officio* member, and one non-voting Trustee Emeritus. The Board meets on a quarterly basis.

In addition to the Board of Trustees, the Bylaws of the University provide for Corporate Officers which presently consist of: the President of the University; the Executive Vice President of Academic Affairs; and the Executive Vice President of Finance and Business. In addition, the President's Cabinet, consisting of members of the University's Senior Management Team, meets on a monthly basis.

Accreditation and Affiliations:

The University was last reaffirmed accreditation by the Accrediting Commission for Senior Colleges and Universities of the western Association of Schools and Colleges (WASC), an institutional accrediting body recognized by the Commission on Recognition of Post Secondary Accreditation and the U.S. Department of Education, in August 1996.

Additionally, the Doctor of Osteopathic Medicine Degree Program is accredited by the Bureau of Professional Education of the American Osteopathic Association and last reaffirmed this status in February 1995. The Bureau is recognized by the United States Department of Education and the Council on Higher Education Accreditation as the accrediting agency for colleges of osteopathic medicine. The College of Osteopathic Medicine of the Pacific is approved by the Board of Osteopathic Examiners of California.

The Doctor of Pharmacy Degree Program has been granted candidate status by the American Council on Pharmaceutical Education (ACPE), the national agency for accreditation of professional degree programs in pharmacy. This is the final step in the ACPE accreditation process for new schools or colleges of pharmacy. Candidate status indicates that a new doctor of pharmacy program has students enrolled, but has not had a graduating class. The College of Pharmacy will receive its final accreditation site visit in April 2000 in anticipation of graduating its charter class in June 2000.

The University's Master of Physical Therapy Degree Program received accreditation status by the Commission on Accreditation in Physical Therapy Education (CAPTE) of the American Physical Therapy Association in May 1994.

In addition, the Commission for the accreditation of Allied Health Education Program certified the University's Primary Care Physician Assistant Certificate Program with accreditation status in May 1990 and reaffirmed in 1992, 1995, and 1998.

The University's Master of Science in Nursing/Family Nurse Practitioner degree program is Board of Registered Nursing approved (as of July 1998). It has been designed to meet the accreditation criteria of the National League for Nursing, and the American Association of Colleges of Nursing.

Competition:

The University's principal competitors are the Arizona College of Osteopathic Medicine, located in Phoenix Arizona, and the Touro University College of Osteopathic Medicine, located in Oakland California.

A distinguishing characteristic of the University is its College of Osteopathic Medicine's rank as the number one in the nation in producing family physicians in 1995 and 1996. Of 121 medical schools, the University was ranked number one for the percentage of its graduates (77.23 percent) who chose careers in primary care medicine.

V. OUTSTANDING DEBT.

As of June 30, 1999, the University had \$30.2 million of outstanding Authority debt. With this financing, the outstanding amount will increase to approximately \$34 million. Western University's other long term debt totals approximately \$750,000 as shown below.

	<u>Amount</u>	<u>Outstanding As of 6/30/99 (1)</u>	<u>Outstanding after Proposed financing (2)</u>
Existing			
CEFA Revenue Bonds, Series 1995	\$24,840,000	\$23,173,758	\$22,498,758
CEFA Revenue Bonds, Series 1998	7,000,000	7,000,000	7,000,000
Proposed			
CEFA Revenue Bonds, Series 2000			4,240,000
Total CEFA Debt		30,173,758	33,738,758
Notes		299,930	299,930
Leases		449,582	449,582
Total Debt		<u>\$30,923,270</u>	<u>\$34,488,270</u>

(1) The amount outstanding combines long-term and current maturities of long-term debt.

(2) The 1995 CEFA Bond balance has been reduced by \$675,000 to account for the June 1, 2000 payment.

VI. STAFF RECOMMENDATION. Staff recommends the Authority approve a resolution for an amount not to exceed \$4,240,000 for the Western University of Health Sciences, subject to the Series B Pool being rated at least "Baa3" by a nationally recognized rating agency, certain bond covenants as described in the "Financing Structure" section, and meeting the standard bond issuance provisions for Baa rated debt.